US Embassy Jakarta
ECONOMIC SECTION

INDONESIA: TRADE AND INVESTMENT HIGHLIGHTS
JANUARY/FEBRUARY 2005

Summary:

- The Central Statistics Agency (BPS) announced on February 1 that Indonesia's economy grew a respectable 5.13 percent in 2004. Growth in imports outpaced exports, but an increase in machinery imports could be a signal of increasing investment.
- Indonesia will host an international textile summit in Bali in April to discuss post Multi-Fiber Agreement (MFA) issues.
- Plans are still uncertain for an Indonesia-hosted G-33 summit to discuss special and differential products prior to the next Doha round negotiations.
- The Minister of Law and Human Rights attended a factory raid in late December 2004 at which police seized 24,000 pirated CDs and DVDs, as well as a variety of optical disc production equipment.
- The Ministry of Finance in January raised tariffs on several agricultural products.
- The Coordinating Minister for the Economy announced on January 24 that the government favors bonded areas over an island-wide Free Trade Zone for the Batam Islands area.
- Investment approval figures jumped in January 2005, led by new projects in the pharmaceuticals and chemicals sector.
- The government banned the import of frozen and fresh shrimp on December 22, 2004 in an apparent effort to cut down on illegal transhipments through Indonesia.

Economic Growth and Trade Accelerating

BPS announced on February 1 that Indonesia's economy grew 5.13 percent in 2004, beating earlier forecasts of 4.8 percent growth. Per capita income rose to IDR 10.64 million (USD 1,181) from IDR 9.57 million in 2003. Consumption continued to account for the largest portion of GDP, at about 66.5 percent, followed by investment at 20.9 percent, and net-export earnings at 12.6 percent.

BPS also announced that Indonesia's exports grew to USD 69.7 billion in 2004, an increase of 11.5 percent from 2003. Strong sales in non-oil and gas commodities such as electronics, palm oil, clothing, coal and tin drove the growth in exports. Japan, the United States, Singapore and China accounted for 42.5 percent of Indonesia's total non-oil and gas exports last year, with the U.S. contributing 13.9 percent.

Meanwhile, total imports jumped by almost 40 percent in 2004 to USD 46.2 billion, with oil and gas imports surging 52.4 percent to USD 11.6 billion and non-oil and gas imports increasing 35.7 percent to USD 34.6 billion. Within the non-oil and gas imports category, capital goods imports increased 41.3 percent, an indication of a strengthening economy.

INDONESIA'S TRADE PERFORMANCE

	2004	2003	Percent Increase 2004/2003
Export	69.7	62.5	11.5%
Oil and Gas	15.5	13.6	14.2%
Non-Oil and Gas	54.2	48.9	10.7%
Import	46.2	33.1	39.6%
Oil and Gas	11.6	7.6	52.6%
Non-Oil and Gas	34.6	25.5	35.7%
Balance of Trade	23.5	29.4	-20.1%

Source: Central Statistic Agency

ITCB to Meet in Bali

The Ministry of Trade will host the International Textile and Clothing Bureau (ITCB) 41st annual meeting in Bali, April 4-7. Participants will discuss textile and garment trade in the post-MFA world. Many observers believe that Indonesia's vertically integrated industry should put it in a good position to maintain its current world market share. However, outdated machinery, corruption and poor productivity continue to inhibit Indonesia's ability to compete with China and other major textile producers in the region.

Indonesia to Convene G-33 Meeting

February 3 press reports indicated that the Ministry of Trade will host a G-33 Trade and Agriculture Ministerial meeting in April 2005. The purpose of the meeting is to develop consensus among developing countries on how to treat special and differential products at the next WTO Doha round meeting. Indonesia has volunteered to play a leadership role for developing countries on these issues. The Ministry of Trade has not fixed exact dates for the meeting or issued invitations but is considering hosting it just before or after the 2nd Asia-Africa Summit to be held in Jakarta from April 22 to 24.

Intellectual Property Rights

Minister of Law and Human Rights Hamid Awaludin, accompanied by his Director General of IPR and police, conducted a raid on a VCD/DVD manufacturer in West Jakarta in late December. The raid, supported with technical assistance from the Motion Picture Association, resulted in the confiscation of over 24,000 pirate VCDs and DVDs, the majority of which contained pirated U.S. movies. In addition to the seized optical discs, authorities also discovered 4 illegal production moulds, 31 stampers, 750 kilograms of polycarbonate, and 3 optical disc production machines.

In an additional enforcement action, Indonesia's Customs Department recently handed over to the Director General for IPR a container of 730,000 pirated play station CDs that were seized at Jakarta's main port. The CDs will be destroyed at a public event on March 10.

GOI Hikes Tariffs on Agricultural Products

The GOI released its 2004 tariff book on December 22, 2003. The book categorizes tariffs into two groups: international non-ASEAN tariffs and ASEAN Tariffs. Most Non-ASEAN tariffs fall into one of three bands: 0 percent, 0 to 5 percent and below, and 5 to 10 percent. Notable exceptions are automotive goods and alcohol. Depending on the vehicle type, automotive tariffs range between 65 and 80 percent. There is also a luxury tax from 15 to 75 percent, depending on the vehicle's engine capacity. Meanwhile, the tariff for alcohol ranges from 40 to 170 percent, with a luxury tax of 40 to 75 percent. Indonesia's average applied tariff is approximately 7.3 percent, whereas its average WTO bound tariff rate is 37 percent. The GOI thus has considerable upward flexibility to increase tariffs.

The Ministry of Finance on December 23, 2004 raised Indonesia's harmonized tariffs on some key agricultural products:

	Import Duty	
Commodities	2004	2005
Rice	IDR 430/kg	IDR 450/kg
Refined Sugar	IDR 700/kg	IDR 790/kg
Corn	0%	5%
Soybean	0%	10%
Potato	5%	25%
Chicken legs	5%	25%

Batam Free Trade Zone

Coordinating Minister for the Economy Aburizal Bakrie announced on January 24 that the government had decided against a proposal to turn the entire Batam Islands area into a single Free Trade Zone. Instead, the government will specify bonded zones into which businesses can import goods duty free. Bakrie noted that export businesses outside the bonded zones could still make use of bonded warehouses. Bakrie said the government has yet to decide the status of neighbouring Rempang and Galang Islands.

The Batam Authority, which governs Batam and has overseen its rapid economic development, argued that the bonded zone scheme would confuse investors and lead to local government graft. However, local authorities claimed that bonded zones would enable them to better govern Batam as mandated under Indonesia's decentralization laws.

Investment Approvals Up

Foreign direct investment approvals jumped in January to $872.1 million from $260.2 million the previous year. According to the Indonesian Investment Coordinating Board (BKPM), new investments and project expansions, the two components most likely to generate fresh flows of funds into the economy, accounted for $856.3 million of the total approval figure. The source countries of the new investment are Canada (1 project for USD 532.4 million), Japan (7 projects for USD 64.9 million), United Kingdom (6 projects for USD 51.1 million), and Taiwan (4 projects for USD 49.6 million).

Three chemical and pharmaceutical sector projects total USD 553.4 million, six food processing sector projects USD 88.9 million, seven metal, machinery & electronic sector projects USD 81.0 million, and four hotel & restaurant sector projects USD 34.9 million. The BKPM does not issue figures on actual investments realized.

Ban on Shrimp Imports

The Ministers of Trade and Marine Affairs and Fisheries on December 28, 2004 issued a decree banning for six months the import of frozen and fresh shrimp into Indonesia. The ban cites possible disease of imported shrimp and contamination as causes for the ban. Press reports noted, however, that recent U.S. bans on the import of shrimp from certain Asian countries, due to suspected dumping practices, has encouraged illegal transhipments through Indonesia. They speculated that the GOI implemented the ban on shrimp imports to avoid the risk of U.S. dumping sanctions against Indonesia.

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